

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2008-460-WS - ORDER NO. 2009-394

JUNE 18, 2009

IN RE:	Application of Avondale Mills, Inc. for)	ORDER APPROVING
	Approval of a New Schedule of Rates and)	RATES AND CHARGES
	Charges for Water and Sewerage Services)	
	Provided to Customers in Aiken County,)	
	South Carolina)	

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the "Commission") on the Application of Avondale Mills, Inc. ("Company" or "Avondale Mills") for approval of a new schedule of rates and charges and for modification to certain terms and conditions for the provision of water and sewer services for its customers in South Carolina. Avondale Mills is a Class C water and wastewater utility providing service in Aiken County. According to Avondale Mills' Application, water service is provided to 616 customers and wastewater service is provided to 495 customers.

This matter was initiated on December 23, 2008, when Avondale Mills filed an Application for approval of a new schedule of rates and charges for customers pursuant to S.C. Code Ann. §58-5-240 (Supp. 2008) and 26 S.C. Code Ann. Regs. 103-503 (Supp. 2008), 103-703 (Supp. 2008), 103-512.4.A (Supp. 2008) and 103-712.4.A (Supp. 2008). By its Application, the Company sought an increase in total annual water and sewer

revenues of \$613,010. No parties filed Petitions to Intervene in this matter. Subsequent to filing its Application, the Applicant complied with all notice requirements.

By letter dated February 19, 2009, the Office of Regulatory Staff (“ORS”) requested a night hearing in Aiken County.¹ On March 5, 2009, the Commission issued Order No. 2009-136 granting a request for a local public hearing and ordering Commission Staff to schedule a public hearing in Aiken County. The night hearing was held on May 26, 2009, at 6:00 p.m. in Graniteville, South Carolina.

On June 2, 2009, a hearing concerning the matters asserted in Avondale Mills’ Application was held in the Commission’s hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, South Carolina. The full Commission, with Chairman Elizabeth B. Fleming presiding, heard the matter of Avondale Mills’ Application. Scott Elliott, Esquire, represented Avondale Mills. Jeffrey Nelson, Esquire, and Shealy Boland Reibold, Esquire, represented ORS. Randall Dong, Esquire, served as legal counsel to the Commission.

Avondale Mills presented the testimony of Jack R. Altherr, Jr., Vice Chairman, President, CEO, and CFO, and G. Stephen Felker, Jr., Vice President of Corporate Development. ORS presented the testimony of Willie J. Morgan, Program Manager for the Water and Wastewater Department, and Christina A. Stutz, Auditor.

II. FINDINGS OF FACT AND SUPPORTING EVIDENCE

1. Avondale Mills provides water distribution and wastewater collection service to 616 water customers and 495 sewerage customers in the Graniteville/ Vauluse

¹ ORS received requests for a night hearing from three members of the General Assembly and several members of the public.

area of Aiken County. As a public utility, its operations are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 *et seq.* (Supp. 2008).

The evidence supporting this finding is contained in the Company's Application, the testimony of its witnesses Altherr and Felker and in the testimony of ORS witness Morgan.

2. We find that the appropriate test year for purposes of this proceeding is the twelve month period ending August 29, 2008.

The evidence supporting this finding is contained in the Company's Application, the testimony of its witness Altherr, and the ORS Audit Department Report sponsored by ORS witness Stutz, which reflects that Avondale Mills proposed a test year ending on August 29, 2008. No party opposed the Company's proposed test year.

3. We find that it is appropriate to employ an operating margin methodology in determining just and reasonable rates based on the Company's Application and the testimony and evidence contained in the record of this case.

The evidence supporting this finding is contained in the Company's Application and based on the testimony of ORS witnesses Morgan and Stutz. Additionally, there are no other parties of record in this matter to propose an alternative method for determining a just and reasonable rate, and the testimony of ORS witnesses Morgan and Stutz contemplate that an operating margin will be employed. The Commission is required to specify an operating margin in all water and sewer cases pursuant to S.C. Code Ann. § 58-5-240(H) (Supp. 2008); however, the Commission is not precluded by the above statute from employing an alternative method of ratemaking.

4. We find that Avondale Mills is currently losing approximately \$475,952 per year in the operation of its water and sewer system. Even after accepting all of the accounting and pro forma adjustments of ORS, Avondale Mills' operating margin during the test year was (429.69%). By its Application, as recalculated by ORS, Avondale Mills is requesting an increase in its rates and charges for water and sewer service to produce an increase in total operating revenues of \$613,060 and a net increase in operating income of \$567,917. This increase in revenues would yield the Company net operating income of \$91,965. Avondale witness Altherr testified that the Company accepted all of ORS's accounting adjustments to Avondale Mills' Application of record and further accepted all financial schedules as proposed by ORS witnesses. As a result, the Applicant's financial schedules as modified by ORS constitute the only evidence pertaining to financial schedules in this Docket.

The evidence for the findings concerning current revenues and operating margin as well as the effect of the proposed rates on revenues is contained in the Company's Application, in Company witness Altherr's testimony, and in ORS witness Stutz's testimony and exhibits.

5. We find that for the test year, after accounting and pro forma adjustments by ORS, which were accepted by the Company's witnesses at the hearing in this case, Avondale Mills incurred total operating expenses of \$586,718.

The evidence to support this finding is in the testimony of Company witness Altherr and ORS witness Stutz.

6. We find that, according to both Commission records and the testimony of Avondale Mills and ORS witnesses at the hearing in this case, the water and wastewater system which is the subject of this action was purchased by Avondale Mills in 1996 and that the system is currently operating under rates put into effect by this Commission in 1980.

The evidence to support this finding is in the testimony of Company witnesses Altherr and Felker.

7. We further find that, although Avondale Mills has requested to impose rates and charges under this Application which represent a substantial increase to its customers, these rates are necessary to ensure the economic viability of the system, which is currently losing close to \$500,000 a year. As testified by Avondale Mills' witnesses Altherr and Felker, the Avondale Mills Company could accept such losses when its manufacturing operations were a customer of the system, but that is no longer a viable option. As the water and wastewater operations must now "stand on their own," we realize that the financial and structural survival of the system requires the drastic percentage increase in rates requested by the Company in order to provide a moderate positive operating margin.

8. We find that the proposed schedule of rates and charges contained as Exhibit A to the Company's Application is fair and reasonable and will yield Avondale Mills an Operating Margin of 12.71%. We further find that such an operating margin should be sufficient to enable Avondale Mills to operate and maintain the present system adequately without providing excessive income or revenues at the expense of the

system's customers. This finding is in accord with the testimony of ORS witness Morgan who testified under cross-examination that ORS considers, and has consistently recommended, an operating margin of between 10% to 15% for water and wastewater utilities operating in South Carolina. The 12.71% operating margin presented in this case falls within this range.

9. We further find that it is appropriate and reasonable to approve the pass through mechanism requested in Avondale Mills' Application. As Avondale Mills purchases all of its water from the Breezy Hill Water and Sewer Company and the Valley Public Service Authority, as well as treatment services from the Aiken County Public Service Authority, it is evident, as was testified by Mr. Altherr at the hearing, that the majority of Avondale Mills' costs are those associated with the purchase of water and sewer services from these entities. The testimony of Mr. Altherr further provided that costs from one or more of these entities normally increases each year. In order to alleviate the quandary of either "rate shock" or yearly rate cases expenses, we find it fair and reasonable to approve the pass-through mechanism as provided in the attached rate schedule, attached hereto as Attachment A.

10. The public hearing conducted by the Commission raised certain quality of service issues related to bill estimates, customer service, water quality, and compliance with the regulations of the South Carolina Department of Health and Environmental Control ("DHEC"). Of note, Mr. Alton Everson raised a concern regarding sewerage overflow. We find that, based on the testimony provided by Company witnesses Altherr

and Felker and ORS witness Morgan, as well as documentary evidence submitted as Hearing Exhibit 2, Avondale Mills has properly responded to overflows and spills.

We further find that these issues, while of significant concern to this Commission, appear to be caused not due to lack of attention or maintenance by Avondale Mills but rather due to the age and condition of the system. We find that the Company should, and must, continue its efforts to identify lost water, system leaks and spills, and must continue to use its best efforts to resolve water pressure issues and valve/hydrant maintenance issues which have been raised by its customers and DHEC. However, the Commission does not believe that our refusal or rejection of the Company's proposed rate increase will resolve, and in fact may aggravate, maintenance and service issues. The Commission finds that it would be in the best interests of both the Company and its customers to allow Avondale Mills to earn a reasonable operating margin to provide it with the means to maintain its aging water and wastewater system properly and to comply with DHEC and Commission standards.

11. We find that it is in the public interest to require performance bonds in the amount of \$540,000 for the Company. Bond amounts must range from an amount not less than \$100,000 and not more than \$350,000 each for water and sewer pursuant to S.C. Code Ann. Regs. 103-512.3.1 (Supp. 2008) and 103.712.3.1 (Supp. 2008). The bond amount is also set forth in S.C. Code Ann. § 58-5-720 (Supp. 2008). ORS witness Morgan testified that the bond requirement for Avondale Mills should be increased to \$265,000 for water operations and \$275,000 for sewer operations based on expenses from the test year. Avondale witness Altherr testified that Avondale Mills accepted the bond

amounts recommended by ORS. Therefore, this Commission finds that in order to provide sufficient financial assurance to both the customer and the Commission in the event that the Company fails to provide safe and adequate service, bonds in the amount of \$540,000 are required.

III. CONCLUSIONS OF LAW

Based on the Findings of Fact as contained herein and the record of the instant proceeding, the Commission makes the following Conclusions of Law.

1. We conclude that an Operating Margin methodology is appropriate to use in establishing just and reasonable rates. In accord with the testimony of ORS Witness Morgan, we conclude that a fair operating margin for the combined water and wastewater operations of Avondale Mills in South Carolina is 12.71%. This operating margin is calculated by dividing the proposed net operating income by the total operating revenues.

2. The Company's calculated operating margin for the test year ending August 29, 2008, under present rates and as adjusted in this Order, was (429.69%). This margin is based on adjusted total operating revenues of \$110,766 and adjusted total operating expenses of \$586,718, producing a net operating loss for return of (\$475,952). Under the rates and charges approved herein and detailed in Attachment A to this Order, Avondale Mills is anticipated to produce a net operating income for return of \$91,965 to yield the approved Operating Margin of 12.71%.

3. The rates and charges provided for in Attachment A to this Order are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of the Company to yield the approved Operating Margin

of 12.71%. The Company's requested modifications to certain terms and conditions of service in its rate schedule are not counter to the public interest and are necessary to ensure the economic viability of the Company.

4. We conclude that the Company is entitled to the implementation of a pass-through mechanism as detailed in the tariff rate sheet attached hereto as Attachment A. We conclude based on the documentary evidence presented and the testimony of ORS Witness Morgan that the existing performance bonds are inadequate, and that Avondale Mills should post performance bonds in the amounts of \$265,000 for water service and \$275,000 for sewer service. These bonds should be in place prior to the implementation of the rates and charges approved in this Order.

IV. CONCLUSION

The law requires that Avondale Mills be allowed to earn a reasonable operating margin for its services, and in deciding on such a margin, the Commission is constrained by the evidence before it and the applicable law. No party to this case argues that Avondale Mills' Application for a rate increase should be denied altogether. Indeed, evidence presented at the hearing revealed a rate increase is necessary to enable the Company to continue operating its aging system. ORS witness Christina Stutz testified that the operating margin resulting from the utility's Application, following ORS's accounting and pro forma adjustments, would be 12.71%. The utility has, through its witnesses Jack Altherr and Stephen Felker, agreed to the ORS's proposed adjustments. We have considered the testimony of several Avondale Mills' customers and elected officials who attended the public night hearing and expressed concern with the current

service and the rates that they could be paying. However, while the Commission finds that the testimony of the Company's customers is relevant to this proceeding, the Commission finds that this testimony, standing alone, is insufficient to provide the basis for denying Avondale Mills' rate increase. Indeed, none of the public witnesses objected to the idea of a rate increase, but rather to its timing or size.

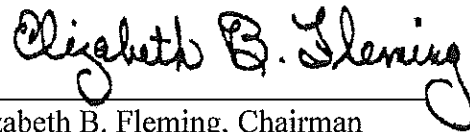
IT IS THEREFORE ORDERED THAT:

1. The rates and schedules in Attachment A are hereby adopted by the Commission and are ordered to be put into effect by Avondale Mills within thirty (30) days of the issuance of this Order or in the Company's next billing cycle. The schedules shall be deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (Supp. 2008).
2. Avondale Mills is entitled to rate relief on the basis of its current operating margin of (429.69%).
3. An operating margin of 12.71% is approved for Avondale Mills.
4. Avondale Mills shall file performance bonds in the amounts of \$265,000 for water and \$275,000 for sewer services prior to the implementation of new rates and charges authorized by this Order.
5. Avondale Mills shall keep its books and records in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts.
6. Avondale Mills shall implement a pass-through mechanism as detailed in Attachment A. Avondale Mills shall comply with all notice and timing provisions as

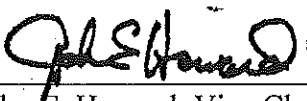
detailed in Attachment A prior to being permitted to increase, bill, or collect any or all rates and charges of any water or sewer rates subject to such pass-through. The Company shall notify this Commission and ORS in writing at least thirty (30) days prior to the implementation of new rates resulting from Avondale Mills' use of the pass-through mechanism or the Company's intent to do so and shall file a revised schedule of rates and charges with this Commission and ORS after the implementation of such rates.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Elizabeth B. Fleming, Chairman

ATTEST:


John E. Howard, Vice Chairman
(SEAL)

**AVONDALE MILLS, INC.
DOCKET No.: 2008-460-WS
SCHEDULE OF RATES AND CHARGES**

WATER

1. Monthly Recurring Charges

RESIDENTIAL & COMMERCIAL CUSTOMERS:

Base Facilities Charge	\$8.00
Commodity Charge	\$4.50 per 1000 Gallons

**APARTMENT COMPLEX - MULTIPLE BUILDINGS SERVED BY A SINGLE
METER:**

Base Facilities Charge	\$50.00
Commodity Charge	\$4.50 per 1000 Gallons

IRRIGATION CUSTOMERS:

Base Facilities Charge	\$ 12.00
Commodity Charge	\$5.65 per 1000 Gallons

INDUSTRIAL CUSTOMERS:

Base Facilities Charge	\$50.00
Commodity Charge	\$4.50 per 1000 Gallons

2. Nonrecurring Charges

Water Tap-In Fee For New Connections

A. 5/8 "Meter	\$550.00
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B. Meter tap fees for meters larger than 5/8" will be based on a single-family equivalent (SFE) using the DHEC contributory loading criteria.

3. Notification, Account Set-Up, and Reconnection Charges

- A. Notification Fee:** A fee of five dollars (\$5.00) shall be charged each customer to whom the utility mails the notices as required by Commission Rule R. 103-535 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost
- B. Customer Account Charge:** A one time fee of \$15.00 will be charged to defray the cost of initiating a new customer's service.
- C. Reconnection Charges:** In addition to any other charges that may be due, a reconnection fee of \$35.00 shall be due prior to the utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5.

4. Late Penalty Charge

Avondale may charge a late-payment penalty up to the maximum amount allowed by applicable South Carolina Statute and/or Public Service Commission rule.

5. NSF Check Charge

Avondale may charge a NSF check charge up to the maximum amount allowed by applicable South Carolina Statute and/or Public Service Commission rule.

6. The Utility shall give the Commission thirty days' notice of its intent to pass-through to customers charges for water service which are higher than those in effect at the time of the Commission's approval of the within rate schedule. The Utility shall provide with such notice written documentation of an increase by the provider of treatment services justifying the increase in the amount of treatment charges sought to be passed-through to affected customers. In the event that an increase in the amount of treatment charges to be passed-through to customers is found by the Commission to be so justified, the Utility will then be required to give customers advance notice before the increase in the charges for water service to be passed through may be put into effect.

SEWER

1. Monthly Recurring Charges

RESIDENTIAL & COMMERCIAL CUSTOMERS:

Base Facilities Charge	\$6.00
Commodity Charge	\$6.50 per 1000 Gallons

APARTMENT COMPLEX - MULTIPLE BUILDINGS SERVED BY A SINGLE METER:

Base Facilities Charge	\$35.00
Commodity Charge	\$6.50 per 1000 Gallons

INDUSTRIAL CUSTOMERS:

Base Facilities Charge	\$35.00
Commodity Charge	\$6.50 per 1000 Gallons

2. Nonrecurring Charges

Sewer Tap-In Fee For New Connections

A. 5/8" Meter **\$550.00**

B. Meter tap fees for meters larger than 5/8" will be based on a single-family equivalent (SFE) using the DHEC contributory loading criteria.

3. Notification, Account Set-Up, and Reconnection Charges

- A. Notification Fee:** A fee of five dollars (\$5.00) shall be charged each customer to whom the utility mails the notices as required by Commission Rule R. 103-535 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.
- B. Customer Account Charge:** A one time fee of \$ 15.00 will be charged to defray the cost of initiating a new customer's service.
- C. Reconnection Charges:** In addition to any other charges that may be due, a reconnection fee of \$250.00 shall be due prior to the utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R. 103-532.4.

4. Late Penalty Charge

Avondale may charge a late-payment penalty up to the maximum amount allowed by applicable South Carolina Statute and/or Public Service Commission rule.

5. NSF Check Charge

Avondale may charge a NSF check charge up to the maximum amount allowed by applicable South Carolina Statute and/or Public Service Commission rule.

6. The Utility shall give the Commission thirty days notice of its intent to pass-through to customers treatment charges which are higher than those in effect at the time of the Commission's approval of the within rate schedule. The Utility shall provide with such notice written documentation of an increase by the provider of treatment services justifying the increase in the amount of treatment charges sought to be passed-through to affected customers. In the event that an increase in the amount of treatment charges to be passed-through to customers is found by the Commission to be so justified, the Utility will then be required to give customers advance notice before the increase in the treatment charges to be passed through may be put into effect.